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GAMBLES

GAMBLE-SKOGMO, INC. 1968 ANNUAL REPORT



Directors

B. C. Gamble
C. C. Raugust
B. F. Davidson
W. H. Davies, Jr.
L. E. Dolan
R. W. Jackson (Resigned 1-25-69)
A. G. Johnson
A. G. Kirkness
B. L. Robbins
A. C. Shedden
H. C. Stephens
A. D. Walker
H. W. Zinsmaster

Officers

B. C. Gamble, Chairman of the Board
C. C. Raugust, President
W. H. Davies, Jr., Executive Vice President for Finance and Treasurer
L. E. Dolan, Executive Vice President for Legal and Secretary
A. G. Johnson, Executive Vice President for Buying and Merchandising
A. C. Shedden, Executive Vice President for Retail and Mail Order Operations
B. F. Davidson, Vice President
H. J. Frommelt, Vice President for Public Relations
J. E. Gottlieb, Vice President for Real Estate
R. W. Hill, Vice President for Buying
R. W. Johnson, Vice President for Buying
W. H. Lollar, Vice President
L. W. Rixe, Vice President and Controller
P. R. Runeberg, Vice President for Management Information
H. C. Stephens, Vice President
E. O. Wack, Vice President for Franchise Operations
R. H. Allen, Asst. Vice President
R. E. Haugen, Asst. Controller
R. G. Leohner, Asst. Secretary
N. M. Steck, Asst. Treasurer

Transfer Agent

First National City Bank
111 Wall Street
New York, New York 10015

Registrar

The Chase Manhattan Bank
1 Chase Manhattan Plaza
New York, New York 10015



GAMBLES

GAMBLES

Gamble-Skogmo, Inc. Annual Report 1968

We hope you are proud of your company, its size, its people and its activities.

Why not put this card in your wallet now?

GAMBLE-SKOGMO, INC. FACTS

Fifty-two weeks ended January 25, 1969

Results for the Year:	
Net Sales	\$1129,901,882
Earnings Before Income Taxes and Minority Interests	\$ 28,379,675
Federal, State and Canadian Taxes	14,429,091
Net Earnings	\$ 13,773,400
Per Share of Common Stock:	
Net Earnings	2.87
Cash Dividends	1.30
Book Value	28.69
Book Value Assuming Conversion of Preferred Stock	31.60
Operating Companies:	
Inventories	\$ 212,561,826
Net Working Capital	\$ 173,166,264
Current Ratio	2.32 to 1
Other Significant Information:	
Stockholders' Equity	\$ 175,753,092
Cash Dividends	\$ 7,612,409
Average Number of Common Shares Outstanding	3,473,559
Number of Shareholders	17,299
Number of Full Time Employees	26,741

Printed in U. S. A.

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About the Cover

The alert retailer, through imagination and innovative concepts, finds new ways to fulfill the increasing demand for fine merchandise, value and service.

Our cover this year shows the many facets of Gambles merchandising, all brought together within a shopping mall planned to create high-volume traffic in a pleasant "all-weather" environment.

Significantly, every element of the Gambles distribution system shown could be either a company-owned unit or a store franchised to a qualified independent marketing operator. This flexibility encourages the highest level of efficiency in moving merchandise in quantity from store to consumer and, in the case of franchised operations, leads to the most favorable employment of Gambles capital funds.

Annual Meeting

The annual meeting of shareholders will be held at the headquarters office on Friday, June 27, at 10:00 a.m. A proxy statement, including a request for proxies, will be mailed to stockholders and prompt attention to the proxy statement will be appreciated.

Directors

B. C. Gamble
C. C. Raugust

IN CANADA
Macleods Stores and Franchised Dealers
Stedmans Stores and Franchised Dealers
Gambles Discount Stores
Marshall Wells Stores and Franchised Divs.
Gamble Drugs Limited

IN THE U.S.A.

Gambles Stores and Franchised Dealers
Gambles Department Stores
Skogmo Franchised Dealers
Tempo Department Stores
Cusins & Fearn Stores
Buckeye Marts
Rasco Variety Stores and Franchised Dealers
Mode O'Day Stores and Franchised Dealers
Red Owl Supermarkets and Franchised Food Stores
Snyder Drug Stores
Aldens Catalog Sales Offices
Aldens Telephone Offices
McDonald's Department Stores
Eisen Stores and Franchised Dealers

GAMBLE OUTLETS

January 25, 1969

Company-owned Stores 907
Authorized Dealers 103
Franchised Dealers 3,231
Total 4,241
In the last four years, the total number of retail outlets has increased from 3646 to 4241. Net sales in the same period have increased from \$562 million to over \$1.1 billion. Gambles operates in 39 states and in all provinces in Canada as follows:

IN THE U.S.A.

Gambles Stores and Franchised Dealers

Gambles Department Stores
Skogmo Franchised Dealers
Tempo Department Stores
Cusins & Fearn Stores

Buckeye Marts

Rasco Variety Stores and Franchised Dealers
Mode O'Day Stores and Franchised Dealers
Red Owl Supermarkets and Franchised Food Stores

Snyder Drug Stores
Aldens Catalog Sales Offices

Aldens Telephone Offices
McDonald's Department Stores

Eisen Stores and Franchised Dealers

IN CANADA

Macleods Stores and Franchised Dealers
Stedmans Stores and Franchised Dealers

Gambles Discount Stores
Marshall Wells Stores and Franchised Divs.
Gamble Drugs Limited



GAMBLES

Gamble-Skogmo, Inc. Annual Report 1968

41st Consecutive Year of Dividends

To Our Shareholders and Employees:

A unique adjunct to our annual report has been a Fact Card which those who are interested in the company may find convenient to carry with them. We have again this year included this wallet-sized card with your 1968 annual report.

We hope it will prove a convenient source of information about the important facts concerning Gambles and be helpful to you in answering questions about our company.

Carl C. Raugust President

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C. C. Raugust, President
W. H. Davies, Jr., Executive Vice President for Finance and Treasurer
L. E. Dolan, Executive Vice President for Legal and Secretary
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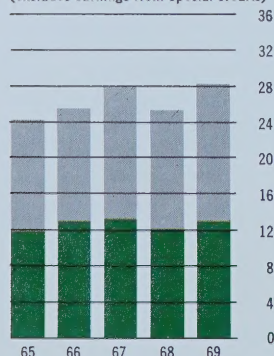
Financial Highlights

	1968 ⁽¹⁾	1967 ⁽¹⁾	% Increase
Sales (Including Leased Departments)	\$1,143,740,683	\$917,966,270	24.6
Net Sales (Excluding Leased Departments)	1,129,901,882	896,371,782	26.1
Earnings before Income Taxes and Minority Interests	28,379,675	25,451,913	11.5
Provision for Income Taxes	14,422,091	12,939,785	11.4
Minority Interests	784,184	516,662	51.8
Net Earnings	13,173,400	11,995,466	9.8
Per Average Share of Common Stock Outstanding	2.87	2.54	13.0
Cash Dividends	7,612,409	7,407,018	2.8
Per Share of Common Stock	1.30	1.30	—
Stockholders' Equity	175,753,092	163,588,596	7.4

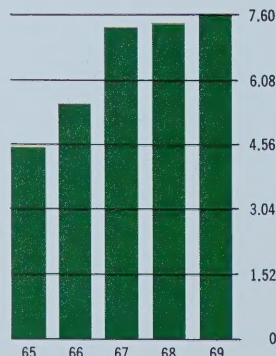
(1) Fifty-two weeks ended January 25, 1969 and January 27, 1968.

Before Taxes and Minority Interests
After Taxes and Minority Interests

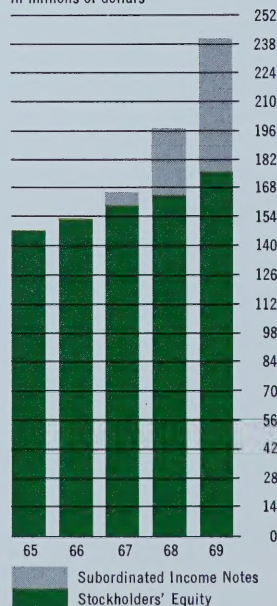
Earnings
in millions of dollars
(excludes earnings from special credits)



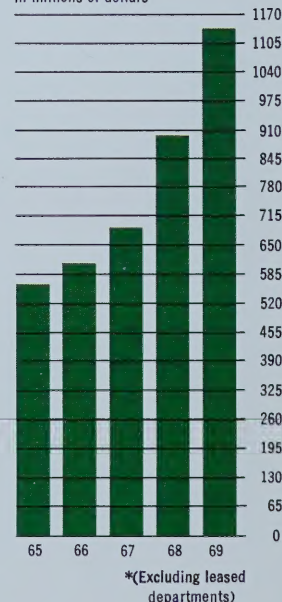
Dividends Paid
in millions of dollars



Capital Funds
in millions of dollars



Net Sales *
in millions of dollars



*(Excluding leased departments)



B. C. Gamble



C. C. Raugust

To Our Stockholders:

Important advances, resulting from basic changes, were achieved by Gambles in 1968 as a new, dynamic team improved operations and effected a better utilization of the company's capital. The central management group has been highly effective, and the company's organizational realignment has now become fully operative. Both have contributed materially to greater overall productivity and efficiencies.

In 1968, for the first time, our company was among that small group of merchandising organizations having annual sales of \$1 billion or more. The past five years have been a period of exceptional progress, for in that time, through internal growth and acquisitions, sales have doubled.

Consumer response to the day-to-day offerings of soundly-priced, quality merchandise has been excellent and led to an increase in 1968 sales of 13.7 percent over the previous year on a fully comparable basis. This volume gain was highly gratifying compared with the average reported for retailing generally. It is strongly suggestive of the broad appeal to families achieved by our diversity of operations and seems to confirm management's approach to large-scale retailing with operations centered in the more stable areas across the nation.

Sales through our franchised associates, too, were well ahead of 1967, recording an increase of 25.5 percent. This segment of our business continues to offer a superior return on invested capital and will be a major avenue of expansion for the company in the future.

The favorable effect of the sales gain, coupled with continued emphasis on operational efficiencies, increased per share earnings about 13 percent despite rising costs and the new Federal 10 percent surtax. Operating earnings established an all-time high for the company and, based on the average number of common shares outstanding during the year, earnings per share amounted to \$2.87 compared with \$2.54 a year earlier. The effect of the surtax was to reduce 1968 earnings by approximately 22 cents a share.

Of particular significance was the acquisition of the J. M. McDonald Co. in July, 1968. McDonald's operates 92 department stores located mainly in the southwestern part of the country.

The service functions, too, were expanded with the acquisition of Gambles Holiday Travel Service through which domestic and international travel arrangements are expected to be widely marketed. Services continue to capture an increasing proportion of the personal expenditure dollars. Customer Convenience Centers were established in 72 stores at which money and financial services are available. Family service functions will embrace insurance, banking, sales of securities, and travel, and in the near future consumer leasing—all of which are a part of a rapidly-growing number of compatible merchandising service classifications.

The Gambles Continental Bank located in St. Paul has continued its growth pattern since acquisition in November 1967, and deposits have increased from \$4.7 million to \$12.5 million at the 1968 year end.

The Gamble Alden Life Insurance Company also registered significant gains. Since acquired by Gambles in 1964, the amount of the firm's insurance in force has increased from \$18 million to more than \$600 million at the end of 1968. Of special note is the fact that the life insurance company began, this past year, to make a significant contribution to the company's net earnings.

Gamble-Alden Securities Inc. will continue to sell the company's 7% Subordinated Income Notes. A new series of Subordinated Income Capital Notes in the amount of \$20 million has been registered with the Securities and Exchange Commission.

The financial position of the company was strengthened by the private placement of \$31.5 million of Subordinated Income Notes and the equivalent repayment of revolving credit and short-term obligations. The capital base was further strengthened during the year through the shares issued in connection with the acquisition of McDonald's, the exercise of stock options and from retention of earnings.

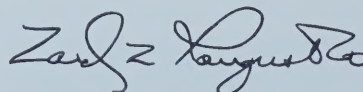
Red Owl Stores, Inc., 80.4 percent of whose stock was held at year end by our company, had an outstanding year. Total sales of that company exceeded \$400 million and it made a noteworthy contribution to the overall earnings results. Its franchise division, too, continued its record of growth and development.

A special shareholders' meeting was held on October 21, 1968 at which several proposals designed to streamline the corporate structure and to make it more responsive to the needs of the company's greatly enlarged scope of operations were approved.

The name Gambles has been synonymous with service, value, variety and courtesy. A new "symbol of service" logo was introduced, and the new Gambles "G" will ultimately be used on all stores, letterheads, trucks and products throughout the company including subsidiaries and divisions.

The favorable pattern of growth has continued into the new fiscal year. Gambles customers are located in marketing areas which enjoy excellent economic conditions. Income, employment, savings and unused credit are at all-time high levels. At this time it is our belief that conditions exist which will reward management's efforts to produce continued progress in virtually every aspect of our business.

The efforts, loyalty and support of our thousands of employees and franchised associates, suppliers and shareholders are greatly appreciated. Their continued confidence and cooperation will contribute abundantly to our future success.



Carl C. Raugust, President



Bertin C. Gamble, Chairman of the Board

March 25, 1969



1968 Sales up 13.7 percent—above \$1 billion for the first time in company history . . .
Earnings show significant gains and financial position is strengthened . . .

SALES

In the latter quarter of fiscal 1967, sales progressed to an annual rate of one billion dollars. In 1968, this long-time goal was achieved for the full year as consolidated net sales totaled \$1,143,740,683, up 13.7 percent above the results for 1967 on a fully comparable basis.

The inclusion of Red Owl sales for the first time for a full year has added greatly to the overall diversity of Gambles merchandising efforts. In 1968, approximately 76 percent of sales, including mail order, were at retail, while the balance was at wholesale to franchised operators. In broad product classification, softlines accounted for about 27 percent of all sales; food and drugs, 37 percent; and hardlines, such as appliances, furniture, hardware and television sets, the remaining 36 percent.

EARNINGS

As in the case of a year earlier, earnings were affected by the higher costs associated with the inflationary condition of the United States and Canadian economies. Rigorous efforts to control expenses and improve margins, together with the growth of franchising operations, kept total earnings at approximately the same ratio to sales as they were a year ago. Despite the addition of the 10 percent Federal surtax, and after providing for preferred dividends, per share earnings, based on average shares outstanding, were equivalent to \$2.87 a common share compared with \$2.54 the prior year—up 13 percent.

DIVIDENDS

Regular quarterly cash dividends of 32½ cents a share were paid on the common stock on April 30, July 30, October 31, 1968 and on January 31, 1969 for a total of \$1.30 a share.

During the year, four regular quarterly dividends of 43¾ cents a share were paid on the \$1.75 Cumulative Preferred Stock and 40 cents a share on the \$1.60 Cumulative Preferred Stock.

On April 3, 1969, the Board of Directors declared a regular quarterly dividend of 32½ cents on the common stock, 43¾ cents on the \$1.75 Cumulative Preferred Stock and 40 cents on the \$1.60 Cumulative Preferred Stock, all payable on April 30 to stockholders of record on April 17.

Wall-to-wall customers marked this recent opening of a Tempo Center in Sioux Falls, South Dakota.

The company has paid dividends in each of the 41 years since its incorporation in 1928.

Recently arrangements were completed and announced by the First National City Bank, the company's dividend disbursing agent, whereby, at the stockholder's request, quarterly common stock dividends can be automatically reinvested in additional shares of Gambles common stock. The response from stockholders has been most favorable. Information about this program will be furnished to stockholders by the First National City Bank upon request.

FINANCIAL DATA

Through the private placement of long-term Subordinated Income Notes in the amount of \$31.5 million and retention of earnings above dividend requirements, Gambles has been able to reduce the level of its revolving credit and short-term borrowings, thus greatly strengthening the current position of its balance sheet.

Consolidated net working capital amounted to \$315,723,429 as of January 25, 1969 compared with \$308,816,306 a year earlier. Current assets of \$542,067,110 were 2.39 times total current liabilities of \$226,343,681.

Gambles customers award growing volume to all Gambles units . . .

Retailing leadership strengthened in the United States and Canada . . .

Management realignment in 1967 results in increased efficiency and profitability . . .

The year 1968, which saw Gambles retail and wholesale volume rise by more than \$100 million on a comparable basis, a gain equivalent to 13.7 percent above 1967's record results, will undoubtedly be remembered as a "benchmark" year, one against which future corporate years will be measured. Despite the problems inherent in retailing in an inflationary economy, the company was able to expand sales in all operating units in the United States and Canada, and, through continuing analysis and a rigorous program of unit profit accountability, has been able to greatly strengthen the competitive position of each store group.

The restructuring of the corporation and the realignment of executive responsibilities, programs which have been in the foreground of corporate

action over the past few years, are now producing evident results in most areas of planning and operations.

In many other areas of marketing and in corporate assistance to operating units, as well, advances have been made in this past year which will strongly enhance growth and profit for the future.

Throughout the organization, the Gambles policy of store improvement continues. Modern marketing requires modern premises and equipment, and expenditures in the area of physical plant help Gambles units maintain or enlarge their leadership position in the communities they serve.

At the same time, Gambles programs of employee recruitment, training and advancement continue to play important roles in developing the manpower required to operate a billion-dollar-a-year enterprise. Retailing can offer attractive futures to young men and women, and Gambles overlooks no opportunity to bring in to its various operations young people whose capability and motivation seem to qualify them for careers in retailing.

The Gambles conventional department store division moved strongly ahead in 1968, resulting in the greatest profit and volume in its history.

Quality, fashion leadership and dominance, typify the stores in this division of Gambles. These fine stores feature nationally advertised brands and their appeal is aimed at upper income level families, thereby spreading Gambles market penetration more broadly. The increasing affluence and the rising level of taste of consumers are evident in the strong performance of these prestige department stores.

Gamble Stores Division recorded a considerable gain in operating results the past year. A wider variety of merchandise was added to lines previously carried in these units. Sales by store and overall profit increased to a marked degree.

The Tempo Division's mass merchandising concept coupled with an aggressive sales promotion campaign resulted in a dramatic increase in volume and showed a favorable improvement in earnings for the year.

At year end, Gambles retail operations were conducted through 489 general merchandise and variety stores, 191 food stores, 33 drug stores, 78 mass merchandising self-service department stores, 116 conventional department stores and 103 catalog sales units, for a total of 1,010 company-owned units. Except for minor variations, the total number of stores at the end of the year closely approximated

A shopping cart overflowing with groceries, including canned goods, fresh produce, and packaged items, illustrating the concept of a 'grocery haul'. The cart is filled to the brim with various items, including cans of soup, boxes of cereal, bags of chips, and fresh vegetables like tomatoes and cucumbers. A person's hand is visible on the left, holding the handle of the cart. The background is a plain, light-colored wall.

those reported at its beginning. However, the addition of the J. M. McDonald Co. stores in July, 1968 sharply increased the number of conventional department stores operated by the company.

Since sales are reported, month-to-month and year-to-year on a fully comparable basis, it is significant that the overall sales gain was achieved with approximately the same number of company-owned units. Again, it seems evident that the corporate development programs of the recent past are having a highly favorable effect on company selling efforts.

Red Owl Reports Record Sales and Earnings . . .

At year end, the company owned 80.4 percent of the outstanding common stock of Red Owl Stores, Inc., a leading food chain in the Upper Midwest. On a fully comparable basis, sales were 19 percent above those of the prior year and exceeded \$400 million. Earnings, too, were the highest in Red Owl history.

Major emphasis has been placed on the remodeling of those units in locations where Red Owl had secured a strong foothold. Expansion was furthered through the acquisition of four stores in Duluth and the opening of three drug outlets, two Family Centers, and three conventional supermarkets, including replacements of existing stores. The Family Center mass merchandising units, in which food, drug, hardlines and softlines departments are included, appear to hold considerable potential for future expansion.

The combined buying and merchandising skills of Gambles, Red Owl and Snyder drugs represent promising profit potential in non-food merchandising in all Red Owl stores.

Acquisition of J. M. McDonald Co. expands Gambles position in department store field . . .

In July, 1968, the J. M. McDonald Co. became a wholly-owned subsidiary of Gambles, thus increasing the number of company-owned conventional department stores to 116 units. The acquisition was accomplished through a combination of a tender offer and an exchange of Gamble-Skogmo common stock for the outstanding McDonald shares.

The McDonald company operates medium-sized department stores throughout the southwestern

states. Its sales for 1968 and so far into 1969 have been at record levels.

McDonald's, which traditionally has placed principal marketing emphasis on nationally advertised brands, has built a strong position in territories not heavily covered by Gambles. New stores are in the planning stage and the kind of store and merchandise for which they are noted makes McDonald's a logical component in the Gambles shopping centers, especially since McDonald's activities tend to complement the other merchandising activities of the company.

Sales of Canadian operations attain higher levels . . .

Operations to keep pace with shift in population trends . . .

Total sales of the Canadian operations reached record levels and profits from these operations made a material contribution to corporate earnings although expenses and costs rose as inflation continued to be a national problem.

Economic forecasts indicate that 80 percent of Canada's population will be urbanized by 1980. This fact alone has made it essential that a viable urban marketing concept be developed with a shift to the larger stores and merchandising methods adequate to service this business.

Such moves will add to overall costs and expenses in many ways. Initially, electronic data processing, applied to this marketing situation, will be a costly adjunct to other outlays. Further, the extension of retail credit is being changed from the presently non-urban applications to more costly but necessary urban situations. However, this should provide broader consumer acceptance and result in strengthening sales.

To accelerate this change in marketing philosophy, a policy has been adopted to shift human and physical resources to those areas where the greatest potential for future growth exists. This program also entails the conversion of small company stores to franchise operations which should in the long run be more profitable to the company.

Problems of changing markets and marketing methods are inherent in the retailing industry, and the cost of capitalizing on such changes should be considered an investment in the future of the Canadian operations.

Upper Left. The frozen food department in a Red Owl Family Center in suburban Minneapolis.

Center Left. Symbolic of reliability, service and quality is this skilled pharmacist dispensing drugs in a Snyder drug store in Minneapolis.



Upper Right. One of two new McDonald's department stores opened during the year in Denver, Colorado.

Lower Right. Crest tires, Gambles private brand line, receive customer consideration in a Gambles outlet.



Below. This Gambles mass-merchandising store, the first Gambles store in the Dominion, opened recently in Oshawa, Ontario, (operated by Clark's-Gamble of Canada Limited).



Flair Fashions by Mode O'Day bring fashions at budget prices . . .

The Flair Fashions story is uniquely American and a tribute to the ingenuity of the Mode O'Day operations.

The Mode O'Day Division of Gambles has been successful in buying expensive, advanced stylings from fashion boutiques in Paris, Rome and London and carefully adapting them for manufacture here using American mass production skills and fabrics to bring prices to budget levels.

Pictured is one of many new Flair Fashions styled in lively young flag colors for spring and summer wear. Flair Fashion styles are available for every need: career, travel and after-five occasions. To complete this new fashion image, scarves, costume jewelry, handbags and other accessories in coordinated colors have been added.

Flair Fashions, now available through Tempo Centers, Rasco-Tempo stores, Buckeye Marts, Aldens catalogs and Mode O'Day frock shops, are a bold, new concept in design, production and merchandising. They offer the most advanced styles and colors in dresses and sportswear.

New headquarters offices and distribution centers for Mode O'Day and Eisen Mercantile Divisions . . .

Mode O'Day completed a new facility of 108,000 square feet in Kansas City during the year. Of this space, the distribution center occupies 75,000 square feet, the manufacturing plant 28,000, and the offices the remainder. It is contemplated with these new quarters that Mode O'Day will be able to service better and more efficiently the fast-growing requirements of that organization. With the rapid expansion of retail outlets in the area it became increasingly necessary to provide modern distribution facilities to keep pace.

Although the Eisen Mercantile Division has been at its present location in Merriam, Kansas, for only three years, it is now in the process of constructing a considerably larger warehouse, converting plant and office at Lenexa, Kansas. The new 208,000 square foot distribution center, which will be located only a few miles away from its present location in the Kansas City, Kansas, suburbs, will make it possible to consolidate all operations of the company including the headquarters plant and the three additional warehouse facilities, all in metropolitan Kansas City.

Long-range plans anticipate continued growth and expansion of the Eisen Division and the new plant, which will not be ready for occupancy until mid-year, can be readily expanded to a 400,000 square foot operation using an adjacent tract of land available for this purpose.

The growth of the Eisen Mercantile Division has been phenomenal. Ten years ago its employees numbered less than 125, and today this number has quadrupled.

In addition to serving 63 House of Fabrics dealers and 37 branch outlets, Eisen fabric departments are now located in 46 Tempo stores.

Which twin is wearing the exclusive Paris original which would sell for about \$100, and which is wearing the Flair Fashion copy by Mode O'Day retailing at \$10.99?



Spotlight on franchising . . .

Sales by Gambles franchised associates add to record year . . .

In 1968, the Gambles franchising program, which has been under intensive development for the past several years, reached a point from which it can be viewed as an effective instrument in carrying forward Gambles current marketing philosophy. During the year, sales to franchised dealers made positive contributions to the overall sales gain and sales per franchised unit rose sharply, as well. Efforts to improve each location were continued and management believes that the franchisees of the company generally are in an excellent financial and marketing position.

New sales programs involving sound merchandise at attractive prices are, to a major degree, responsible for the success of the franchised dealers; most importantly, however, the sense of ownership and the responsibility it generates lead Gambles dealers to reach for new, higher goals each year.

The company is firmly committed to franchising as one element in its program for growth and expects to substantially increase its proportion of franchise business within the next few years. It believes that Gambles, with an unparalleled diversity of retailing operations, offers virtually unlimited opportunity for highly motivated people to build a secure place for themselves within the framework of marketing achievement.

Again, because of the diversity of Gambles operations, it is theoretically possible for it to franchise an entire shopping center. It is not difficult to visualize a number of franchised units as part of a Tempo—Red Owl complex. The mutual benefits resulting from such a relationship are self-evident.

For 35 years Gambles has helped thousands of people, many of them former employees, to own and operate their own thriving retail businesses. Gambles provides expert help in establishing a franchise, training the owner and then guides him with proven marketing, merchandising and operating plans toward building a sound, profitable business.

During the year, a considerable number of company-owned units in the Gamble stores division were converted to franchised operations. This program will be continued and expanded to other divisions in 1969. In addition to release of company

capital for more profitable utilization, it aids in the distribution of company products in those markets that cannot be economically served through major retail outlets. This creates market penetration, often in areas that Gambles might otherwise find necessary to abandon. Also, the company is providing a service and an opportunity to a large number of qualified individuals to operate a business of their own.

Catalog sales trend up in response to intensified promotions . . .

Mail order and catalog units make the Gamble-Aldens catalog a national marketing force . . .

The 750-page colorful Gamble Aldens catalog is now read by homemakers and family members everywhere. Published twice a year as the Spring and Summer and the Fall and Winter issues, it is packed with family necessities, fashions, sporting goods, auto supplies, and hard goods, to name only some of its contents. The impact of these catalogs is reinforced by timely smaller books and flyers, making in all a total of 52 million selling units, all planned to bring the best of the world's merchandise to Gambles families everywhere.

During 1968, the Gamble Aldens catalog reached full stature as a key marketing tool in the Gambles distribution system. Not only was the quality level of its merchandise raised to standards higher than ever before, but its overall price structure was fully competitive with all other national catalog merchandise. This, coupled with aggressive selling through the company's 103 catalog sales units, produced the highest level of catalog sales in company history. At the same time, individual sales were for higher dollar amounts than ever before.

The start of a new merchandising pattern for Gamble Aldens, catalog sales offices was established in 1968. The new concept, tailored specifically for these stores, was entitled "Look of the Seventies". The aim of this program is to successfully combine catalog selling with "in store" promotions of major home appliances. This combination of catalog and display selling will be extended in 1969.

Below. Aldens Catalog Sales Departments have been installed in all Tempo Centers and many Gambles outlets. The Aldens catalog offers many thousands of items for more complete family living that, because of space limitations, no retail outlet could possibly carry in stock.



Gambles not only offers a larger selection of franchises than any other company, but it also offers more dealer services than other franchisers. These "dealer helps" include merchandising, advertising, store planning and display, accounting, financing, store fixtures, market research, cost control, and other services.

Above and below are scenes at a typical softlines clinic at which dealers are informed and place their orders for future merchandise requirements.



Travel agency joins bank, life insurance company and other family services . . .

During the year, the company acquired a Minneapolis travel agency which has been renamed Gambles Holiday Travel Service. While this agency generates substantial travel business at two Minneapolis locations, longer-range efforts will be made to establish branch offices in other locations throughout the United States.

Deposits at Gambles Continental State Bank in St. Paul were sharply higher at year end and were $2\frac{1}{2}$ times greater than when the bank was acquired 18 months earlier. Because of the breadth of its services and their relatively low cost, it is expected that the bank's growth will continue.

Again, the Gamble Alden Life Insurance Company, now admitted to do business in 23 states, set new records for insurance in force and number of insured clients. Its premium income rose 55 percent the past year, and the net gain from operations was significant.

Services are an integral element in successful merchandising. In addition to banking, life insurance and travel services offered by the company, Gamble-Alden Securities Inc., a registered broker-dealer and a member of the National Association of Securities Dealers, markets the company's 7% Subordinated Income Notes and a wide range of mutual funds, as well. The securities company has a sales force, representing both the insurance company and the securities company, that provides complete financial services for our employees and customers. There are presently 41 representatives licensed for securities and insurance counseling and sales. The 1969 budget calls for rapid growth in the number of similarly licensed representatives.

Corporate buying program . . . Savings through consolidation . . .

As in the past several years, corporate buying programs designed to produce lower merchandise costs and higher merchandise quality, were enlarged and their efforts intensified. With company sales at the \$1 billion level, consolidation of buying to cover several marketing units creates price and quality opportunities not previously available, and the new corporate headquarters with its well-planned physical facilities adds to the realization of these objectives. The corporate buying policies and programs instituted afford an unusual synergistic opportunity.

Specialization of buyers' responsibilities to secure products manufactured to exacting specifications has led to many company-wide promotions in both the United States and Canada, thereby increasing values for customers and better profit potential for the company through more consumer emphasis on corporate brand names.

Professionalism in high volume procurement is improving quality-value standards in all merchandise lines. Cost advantages together with national advertising and merchandising programs implemented by each profit center are providing unusual merchandising leverage and profit opportunities.

Also leading to improved buying methods is the constantly greater depth in the utilization of computers, especially in the area of stock recordkeeping, analysis of item turnover, and in forecasting size and style requirements. In these connections, a new office for inventory management was established which, in cooperation with the Management Information staff, should lead to a greater return on investment in inventory, as well as superior service to Gambles dealers and Gambles customers.

The Cussins & Fearn Division's buying and merchandising operations in Columbus, Ohio, were integrated with the headquarters staff responsible for these functions, and Aldens fashion buying office was consolidated with Gambles Corporate Buying office in New York City. Additional moves in buying and marketing in 1968 will lead to improved performance in the years ahead.

The Gambles Import Corporation continued to expand in 1968 as product lines, especially those originating in the Orient and Europe, found increasing favor with customers and dealers in the United States and Canada. A new buying office was established in Tokyo during the year. As in the case of domestic buying operations, the growing consolidation of buying talent, product knowledge and purchasing power is equally effective in foreign markets and this has contributed greatly to overall corporate merchandising efforts.



Left. A Gambles counselor offers a prospective customer a supermarket selection of sales services including 7% Subordinated Income Notes of the parent company, mutual funds, insurance, and home mortgages through Gamble Alden Life Insurance, Gamble-Alden Securities, and Gambles Continental Bank.

Below. Gambles Continental Bank in St. Paul—Gambles full-service banking subsidiary.



Above. Gambles Holiday Travel Service, with offices in Gamble Center and the Curtis Hotel in Minneapolis, offers business and vacation travel arrangements to the general public as well as Gambles employees and dealers.

Left. A typical Customer Convenience Center in a Tempo outlet offering a myriad of services to consumers such as travelers checks, gift wrapping, money orders, utility bill payments, gift certificates, check cashing and parcel insurance.

Gamble Development Company Surveys Potential Growth Markets . . .

One of the purposes in establishing the Gamble Development Company last year was to survey marketing areas, then select and develop most likely locations for the establishment of Gambles shopping centers. At present, the survey is limited to a five-state area centering on Minnesota, and as its first goal will select locations for a number of Gambles centers to be developed within the next five years.

Of particular interest, scheduled to be started in mid-1969 and completed in the fall of 1970, is a Gamble regional-type center at Escanaba, Michigan. Store space will total at least 160,000 square feet and there will be both company-owned and franchised units in operation. Presently, plans call for a Red Owl Family Center, major department store, Mode O'Day, Eisen, drug store and a catalog sales unit, plus various other convenience shops. As a prototype of Gambles marketing techniques of the future, this center will be of more than ordinary interest. Consumers today demand the convenience of one-stop shopping. The full range of retail stores and service shops in the center will enable busy shoppers to park a single time and be in a position to satisfy the shopping needs of the entire family.



This high-fashion brand name lingerie was displayed in the McDonald's department store at York, Nebraska.



At special meeting, stockholders vote to modernize and streamline corporate structure . . .

As reported in the nine month statement, the stockholders of Gamble-Skogmo, Inc. on October 21, at a special meeting at company headquarters in Minneapolis, acted on several proposals which were described as "actions to modernize and streamline the corporate structure to make it more responsive to the company's greatly enlarged scope of operations and to its 'billion dollar' size".

The stockholders, present and by proxy, overwhelmingly approved an increase in the number of directors from thirteen to seventeen and a provision for their election through cumulative voting. They also amended the Bylaws with respect to removal of directors and to their indemnification. Furthermore, the stockholders voted to increase the number of common shares which may be issued under the company's Stock Option Plan.

At the same meeting, the stockholders approved a proposal to change the corporate name to Gambles Inc., which change can now be made at any time in the future, as determined by the Board of Directors.

Electronic management information reduces costs and improves service . . .

In the area of data processing and management information, considerable progress was made during 1968. Under corporate direction, each profit center has expanded its electronic data processing to include many new applications in addition to providing computer and personnel capacity for the corporation's growth. For example, the rapidly expanding Gamble Alden Life Insurance Company has automated its record keeping. The Aldens mail order profit center has computerized its catalog administration and credit management. Centralized inventory control and order processing has made substantial progress. These and many more computer applications have reduced costs, improved service and made management information readily available.

During the year, the Management Information staff has expanded to include several highly-skilled professional specialists. A Corporate Director of Communications is now responsible for inter-profit center communication. Several projects in this area will reduce costs significantly and speed data transmission. A newly-appointed Corporate Director of Operations Research will spearhead management science projects for total corporate application.

In the management information field, as in other areas of management, centralization is employed where savings in capital, expense and talent are possible while at the same time data is made available for effective profit center management.



THE COMPANY CONTINUES ITS AWARENESS OF FAVORABLE COMMUNITY AND PERSONNEL RELATIONS . . .

During August, the move was made to the company's new six-story, 230,000 square foot headquarters building in suburban Minneapolis.

In addition to the corporate staff, the new home office houses the executive offices of several divisions and subsidiaries of the parent company, including Gamble Alden Life Insurance, Gamble-Alden Securities, Tempo Stores Division, Gamble Stores Division, Gambles Holiday Travel Service, Gamble Development Company and Gamble Skogmo Acceptance Corporation.

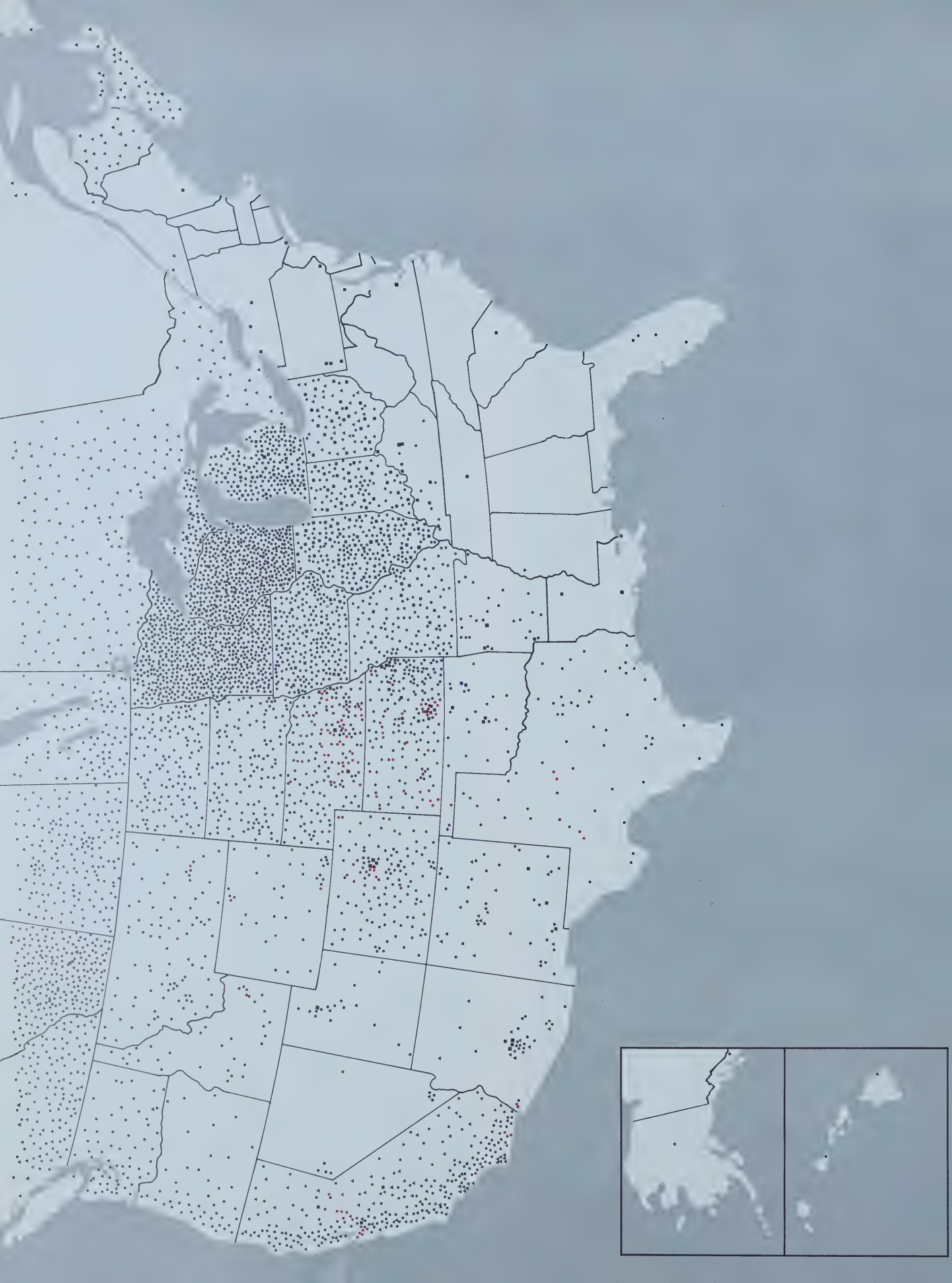
Management recognizes that in today's competitive market for competent personnel, the new suburban headquarters location, with its spacious parking facilities and full complement of employee services, is conducive to recruitment and retention of capable, high-caliber employees. Among these service benefits are the fully-equipped and staffed medical department, the employee store, the lounge, and the cafeteria. Not only do these features contribute to high employee morale, but the new building, with its modern office facilities, has improved productivity and efficiency.

Also, it is recognized that the imposing new headquarters building has contributed favorably to that intangible, illusive, but frequently-referred-to posture commonly known as "corporate image".

The company is proud of the loyal and experienced employees who are responsible for its growth and success. To this end, a new employee benefit program has been installed to attract and retain qualified personnel. This new "package" embraces life insurance, comprehensive health care, disability coverage, travel accident and pension benefits.

A feature of the new program is the Thrift Sharing Plan which provides an incentive for employees to save a portion of their earnings through payroll deduction. Employees' contributions to a trust fund are invested in accordance with their selection of various options. Under provisions contained in the plan, the company agrees to partially match the amount saved by employees and invest such funds in Gamble-Skogmo common stock. Thus, employees as shareholders are inspired to improve productivity as part owners of the company.

The employee entrance of the new headquarters building in Gamble Center, St. Louis Park, in suburban Minneapolis.



GAMBLE-SKOGMO, INC.

This map is intended only to show the geographical scope and density of our retail outlets, but not necessarily exact locations. The red symbols represent the addition of McDonalds Department Stores in 1968.

Franchises

Company Owned

Franchises

Company Owned

STATE	Gamble Stores	Tempo Dept. Stores	Cussins & Fearn Stores	Rasco Variety Stores	Mode O'Day Stores	Aldens Catalog Sales Offices	Aldens Telephone Offices	Eisen Department Stores	Red Owl Food Stores	Snyder Drug Stores	Mcdonalds Dept. Stores	Total	
Alaska.....												0	
Arizona.....												2	
Arkansas.....												4	
California.....												29	
Colorado.....	12	4										76	
Florida.....												22	
Hawaii.....												4	
Idaho.....	4											1	
Illinois.....	8	3										14	
Indiana.....	4	1										32	
Iowa.....	20	2										11	
Kansas.....	12	3										31	
Kentucky.....												8	
Louisiana.....												27	
Maine.....												1	
Maryland.....												0	
Michigan.....	14	7										8	
Minnesota.....	19	8										13	
Mississippi.....												6	
Missouri.....	4	2										1	
Montana.....	6	3										35	
Nebraska.....	14	5										7	
Nevada.....												14	
New Mexico.....	2	3										1	
New York.....												9	
North Dakota.....	4	4										13	
Ohio.....	1	*31										20	
Oklahoma.....												58	
Oregon.....												12	
Pennsylvania.....												1	
South Carolina.....												3	
South Dakota.....	4	3										16	
Tennessee.....												2	
Texas.....												2	
Utah.....												50	
Virginia.....												16	
Washington.....												1	
Wisconsin.....	16	3										12	
Wyoming.....	5	1										45	
Total.....	145	56	31	2	35	90	13	24	37	191	33	92	749

Gamble Macleod Limited 896 Canadian Stores by Province

Company Owned

Franchises

PROVINCE	Macleods Stores	Stedmans Stores	Clark's—Gamble Stores	Marshall Wells Stores	Macleods Dealers	Stedmans Dealers	Marshall Wells Dealers
Alberta.....	31	6	10		51	32	94
British Columbia...	8	19	9		4	21	69
Manitoba.....	11		4		39	5	44
New Brunswick.....		16				3	
Newfoundland.....		1					
Nova Scotia.....	21				4	113	5
Ontario.....	3	68	1	2		3	
Prince Edward.....		2					
Quebec.....	2					4	
Saskatchewan.....	27	5			62	19	53
Northwest Territories				12			
TOTAL.....	80	140	4	37	160	208	267

*Includes 13 regular retail stores and 18 Buckeye Marts.

Principal Offices, Divisions and Subsidiaries

Headquarters: Gamble-Skogmo, Inc., 5100 Gamble Drive, Minneapolis, Minnesota 55416

ALDENS, INC. C. R. WUNDERLICH
5000 West Roosevelt Road, Chicago, Illinois 60607
Operates mail order catalog sales units

CLARK'S-GAMBLE of CANADA LIMITED P. C. FIKKAN
1530 Gamble Place, Winnipeg 19, Man., Canada
Operates mass-merchandising department stores

CLAUDE NEON ADVERTISING LIMITED G. W. CASPARI
4090 Jean Talon Street West, Montreal 9, P.Q., Canada
Offers outdoor and electrical sign service in Canada

CUSSINS & FEARN DIVISION J. A. MORGAN
3636 Indianola Avenue, Columbus, Ohio 43214
Operates Cussins & Fearn and Buckeye Mart stores

EISEN MERCANTILE DIVISION M. EISEN
5400 Antioch Drive, Merriam, Kansas 66202
Operates "House of Fabrics" shops and services franchised fabric shops

GAMBLE ALDENS FINANCE COMPANY W. H. DAVIES, JR.
5000 West Roosevelt Road, Chicago, Illinois 60607
Purchases mail order receivables from Aldens, Inc.

GAMBLE ALDEN LIFE INSURANCE COMPANY
E. C. WILLIAMSON
5100 Gamble Drive, Minneapolis, Minnesota 55416
Offers life insurance and insures customer credit accounts

GAMBLE-ALDEN SECURITIES INC. J. H. OFFERMAN
5100 Gamble Drive, Minneapolis, Minnesota 55416
Markets Gamble Alden Life Insurance and Subordinated Income Notes of the parent company

GAMBLE CORPORATE BUYING DIVISION A. PALEY
200 Madison Avenue, New York, New York 10016
Corporate headquarters for buying softline fashion goods

GAMBLE DEPARTMENT STORES, INC. R. E. RILEY
5000 West Roosevelt Road, Chicago, Illinois 60607
Operates conventional department stores

GAMBLE DEVELOPMENT COMPANY J. E. GOTTLIEB
5100 Gamble Drive, Minneapolis, Minnesota 55416
Develops and leases real estate

GAMBLE DRUGS LIMITED J. B. CHEYNE
1530 Gamble Place, Winnipeg 19, Man., Canada
Operates wholesale drug and drug sundries warehouse

GAMBLE MACLEOD LIMITED A. G. KIRKNESS
1530 Gamble Place, Winnipeg 19, Man., Canada
Directs all Canadian operations

GAMBLE SKOGMO ACCEPTANCE CORPORATION
C. R. BRANSON
5100 Gamble Drive, Minneapolis, Minnesota 55416
Purchases installment receivables from the parent company and its franchised dealers

GAMBLE STORES DIVISION G. S. YOUNGER
5100 Gamble Drive, Minneapolis, Minnesota 55416
Operates Gamble stores and services Gamble franchised stores and Skogmo franchised stores

GAMBLES CONTINENTAL STATE BANK W. A. BOSS
441 Wabasha, St. Paul, Minnesota 55102
Provides general banking services

GAMBLES HOLIDAY TRAVEL SERVICE W. A. BENSON, JR.
5100 Gamble Drive, Minneapolis, Minnesota 55416
Provides business and vacation travel services to general public

GAMBLES IMPORT CORPORATION H. D. NELSON
2777 North Ontario Street, Burbank, California 91504
Performs corporate import buying services

J. M. McDONALD CO. C. E. BLAIR
2635 West 2nd Street, Hastings, Nebraska 68901
Operates retail department stores

MACLEODS DIVISION B. F. RUTHERFORD
1530 Gamble Place, Winnipeg 19, Man., Canada
Operates Macleod stores and services Macleod franchised stores

MARSHALL WELLS LIMITED R. B. SUTHERLAND
1395 Ellice Avenue, Winnipeg 21, Man., Canada
Operates Marshall Wells hardware stores and services franchised Marshall Wells and Crest hardware outlets

MODE O'DAY DIVISION I. M. MALOUF
2130 North Hollywood Way, Burbank, California 91505
Operates dress shops and services franchised dress shops; operates factories

RASCO STORES DIVISION W. H. LOLLAR
2777 North Ontario Street, Burbank, California 91504
Operates variety stores and self-service department stores and services franchised variety stores

RED OWL STORES, INC. J. A. WATSON
215 Excelsior Avenue East, Hopkins, Minnesota 55343
Operates food stores and services franchised food stores

SNYDER'S DRUG STORES, INC. L. D. BERKUS
215 Excelsior Avenue East, Hopkins, Minnesota 55343
Operates Snyder drug stores

STEDMANS DIVISION S. P. WOOLEVER
136 Portland Street, Toronto 2B, Ont., Canada
Operates Stedmans variety stores and services Stedmans franchised stores

TEMPO STORES DIVISION E. C. MOORE
5100 Gamble Drive, Minneapolis, Minnesota 55416
Operates Tempo mass merchandising department stores

Significant Comparisons⁽¹⁾

(All Dollars in Thousands except Amounts Per Share)

	1969	1968	1967	1966	1965 ⁽³⁾
Results for the year:					
Sales—Including Leased Departments	\$1,143,741	\$917,966	\$713,959	\$637,333	\$584,298
Net Sales—Excluding Leased Departments . .	1,129,902	896,372	688,898	611,588	561,873
Earnings before Income Taxes and Minority Interests	28,380	25,452	28,028	25,615	24,166
Federal, State and Canadian Taxes	14,422	12,940	14,451	12,485	12,314
Net Earnings ⁽²⁾	13,173	11,995	13,279	13,035	11,759
Per Share of Common Stock:					
Net Earnings	2.87	2.54	2.93	2.84	2.44
Cash Dividends ⁽³⁾	1.30	1.30	1.25	1.20	1.50
Book Value	28.69	26.28	24.95	23.16	21.37
Book Value Assuming Conversion of Preferred Stock	31.60	30.16	29.31	28.17	27.03
Year End Position—Operating Companies:					
Inventories	212,562	187,388	171,359	150,202	123,684
Net Working Capital	173,166	165,955	207,593	176,240	176,899
Current Ratio	2.32 to 1	2.60 to 1	2.45 to 1	2.26 to 1	2.42 to 1
Capital Funds—Comprising Stockholders' Equity and Subordinated Income Notes . .	244,838	201,307	165,400	152,820	146,621
Year End Position—Finance Companies ⁽⁴⁾:					
Customer Deferred Payment Accounts . . .	235,617	227,569	—	—	—
Long-term Debt—Senior	71,693	76,573	—	—	—
Long-term Debt—Subordinated	15,606	16,253	—	—	—
Stockholders' Equity	60,812	57,901	—	—	—
Miscellaneous Data:					
Number of Full Time Employees	26,741	27,286	23,768	21,754	19,539
Number of Company-Owned Stores	907	987	782	753	713
Number of Company-Owned Catalog Offices .	103	104	119	111	107
Number of Authorized Dealers	3,231	3,349	3,104	3,115	2,826
Number of Shareholders	17,299	17,059	16,476	16,576	15,401
Average Number of Common Shares Outstanding	3,473,559	3,454,542	3,439,661	3,452,320	3,448,531

(1) All years end in January of the year indicated and each has been restated to include the operations of companies merged with Gambles.

(2) 1966 and 1965 exclude income from special credits amounting to \$285,000 (\$.09 a share) and \$3,947,000 (\$1.28 a share) respectively.

(3) 1965 includes thirteen months operations and five dividend quarters.

(4) Finance company information for 1967 and prior is not obtainable as certain finance operations were included within the operating companies.

Consolidated Balance Sheet/January 25, 1969 with Comparative Figures at January 27, 1968

Assets	1969				1968 (note 1)
	Operating Companies	Finance Companies	Real Estate Companies	Consolidated	Consolidated
Current Assets:					
Cash, including temporary cash investments	\$ 28,289,977	\$ 8,395,731	\$ 237,263	\$ 36,922,971	\$ 31,936,087
Receivables (note 2)	52,747,014	244,115,505	4,975,922	281,361,145	257,836,394
Inventories at lower of cost or market	212,561,826	—	—	212,561,826	187,387,584
Prepaid expenses	10,701,854	512,430	6,884	11,221,168	10,196,921
Total Current Assets	<u>304,300,671</u>	<u>253,023,666</u>	<u>5,220,069</u>	<u>542,067,110</u>	<u>487,356,986</u>
Investments (note 1):					
Investments in subsidiaries	69,421,311	—	—	5,287,888	2,730,401
Other securities and notes receivable, at cost	4,483,670	6,771,005	641,411	7,819,464	6,665,831
Total Investments	<u>73,904,981</u>	<u>6,771,005</u>	<u>641,411</u>	<u>13,107,352</u>	<u>9,396,232</u>
Property and equipment—net (note 3) . .	63,194,296	—	35,527,329	98,721,625	96,742,042
Intangible assets, arising in connection with acquisition of subsidiary companies (note 4)	27,101,920	—	—	27,101,920	28,214,656
Deferred charges and miscellaneous assets	14,120,864	373,485	309,655	14,444,894	8,300,352
	<u>\$482,622,732</u>	<u>\$260,168,156</u>	<u>\$ 41,698,464</u>	<u>\$695,442,901</u>	<u>\$630,010,268</u>

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	1969				1968
	Operating Companies	Finance Companies	Real Estate Companies	Consolidated	(note 1) Consolidated
Current Liabilities:					
Notes payable	\$ 327,608	\$ 79,310,441	\$ —	\$ 79,638,049	\$ 59,533,727
Current instalments of long-term debt	1,690,595	3,604,000	970,335	6,264,930	6,863,451
Accounts payable and accrued liabilities	119,076,299	3,113,996	2,845,153	104,558,151	80,977,292
Current income taxes	4,508,933	155,478	104,132	4,768,543	5,159,460
Deferred Federal income taxes (note 5)	5,530,972	25,514,462	68,574	31,114,008	26,006,750
Total Current Liabilities . . .	<u>131,134,407</u>	<u>111,698,377</u>	<u>3,988,194</u>	<u>226,343,681</u>	<u>178,540,680</u>
Deferred credits (note 6)	5,213,364	359,110	369,299	5,582,663	5,096,520
Minority interests in consolidated subsidiaries	7,086,137	—	—	7,086,137	8,009,580
Long-term debt (note 7) excluding subordinated income notes shown below as capital funds:					
Senior long-term debt	94,351,134	71,693,000	34,019,996	200,064,130	224,764,592
Subordinated long-term debt	—	15,606,000	—	15,606,000	16,370,000
Total	<u>94,351,134</u>	<u>87,299,000</u>	<u>34,019,996</u>	<u>215,670,130</u>	<u>241,134,592</u>
Capital funds comprising subordinated income notes and stockholders' equity:					
Subordinated income notes (note 7) .	69,084,598	—	—	65,007,198	33,640,300
Stockholders' equity	175,753,092	60,811,669	3,320,975	175,753,092	163,588,596
Total	<u>244,837,690</u>	<u>60,811,669</u>	<u>3,320,975</u>	<u>240,760,290</u>	<u>197,228,896</u>
Contingent liabilities and commitments (note 13)					
	<u>\$482,622,732</u>	<u>\$260,168,156</u>	<u>\$ 41,698,464</u>	<u>\$695,442,901</u>	<u>\$630,010,268</u>

Consolidated Statement of Earnings and Retained Earnings

	Fifty-two Weeks ended	
	January 25, 1969	January 27, 1968 (note 1)
Sales and other income:		
Sales	\$1,143,740,683	\$917,966,270
Less leased department sales	13,838,801	21,594,488
Net sales	1,129,901,882	896,371,782
Advertising and broadcasting revenues	14,263,361	13,940,072
Other income—net (note 1)	3,685,183	1,826,840
Total	1,147,850,426	912,138,694
Costs and Expenses:		
Cost of sales, including certain occupancy and buying costs	860,269,583	678,198,790
Operating and administrative expenses (net of instalment account service charges)	219,807,788	174,075,623
Depreciation and amortization	10,937,138	9,917,137
Interest	23,905,012	20,827,916
Provision for employees profit sharing and pension plans (note 8)	4,551,230	3,667,315
Total costs and expenses	1,119,470,751	886,686,781
Earnings before income taxes and minority interests	28,379,675	25,451,913
Provision for income taxes (note 5)	14,422,091	12,939,785
Minority interest in earnings of subsidiaries	784,184	516,662
Net earnings	13,173,400	11,995,466
Retained earnings:		
At beginning of period as previously reported	105,250,135	101,187,609
Equity in pooled portion of retained earnings of J. M. McDonald Co. (note 1)	4,226,408	3,700,486
Retained earnings at beginning of period as restated	109,476,543	104,888,095
Cash dividends declared:		
\$1.75 preferred stock	(1,044,888)	(1,044,925)
\$1.60 preferred stock	(2,163,632)	(2,167,648)
Common stock—\$1.30 per share	(4,310,816)	(4,015,853)
J. M. McDonald Co. prior to pooling of interests	(93,073)	(178,592)
Retained earnings at end of period (note 11)	\$ 115,037,534	\$109,476,543
PER SHARE OF COMMON STOCK:		
Net earnings	\$2.87	\$2.54
Pro forma net earnings (note 12)	\$2.24	\$2.12

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

	Fifty-two Weeks ended	
	January 25, 1969	January 27, 1968
Voting, cumulative, convertible, preferred stock (note 9):		
\$40 par value; \$1.75 per share dividend; authorized 600,000 shares, issued (1969) 596,992 shares; (1968) 597,092 shares:		
Balance at beginning of period—at par value	\$ 23,883,680	\$ 23,883,680
Par value of shares converted to common shares during period	(4,000)	—
End of period at par value	<u>23,879,680</u>	<u>23,883,680</u>
\$5 par value; \$1.60 per share dividend; authorized 1,400,000 shares; issued (1969) 1,343,670 shares; (1968) 1,354,454 shares:		
Beginning of period—at par value	6,772,270	6,774,395
Par value of shares converted to common shares during period	(53,920)	(2,125)
End of period—at par value (aggregate preference upon involuntary liquidation, \$53,746,800)	<u>6,718,350</u>	<u>6,772,270</u>
Common Stock of \$5 par value; authorized 10,000,000 shares; issued (1969) 3,602,430 shares; (1968) 3,454,885 shares (note 10):		
Beginning of period—at par value	15,446,955	15,444,830
Par value of stock exchanged for the capital stock of J. M. McDonald Co. (note 1)	1,827,470	1,827,470
Beginning of period as restated—at par value	17,274,425	17,272,300
Par value of shares issued upon:		
Public sale	296,060	—
Exercise of employees' stock options	313,730	—
Conversion of preferred stock	54,435	2,125
Acquisition of twenty-three variety stores (note 1)	73,500	—
End of period—at par value	<u>18,012,150</u>	<u>17,274,425</u>
Additional paid-in capital:		
Beginning of period	4,434,821	4,434,821
Adjustments arising from pooling with J. M. McDonald Co. (note 1)	1,746,857	1,746,857
Beginning of period as restated	6,181,678	6,181,678
Excess of proceeds over par value of 59,212 shares sold publicly	1,110,225	—
Excess of market value over par value of 14,700 shares of common stock exchanged for twenty-three variety stores	363,825	—
Proceeds from exercise of stock options in excess of par value	1,494,011	—
Fair value of warrants issued on sale of subordinated income notes, 7% series C and D (note 10)	3,084,601	—
Excess par value of 100 shares of \$40 par value preferred stock converted to 103 shares of common stock	3,485	—
Expenses relating to acquisition of J. M. McDonald Co.	(132,447)	—
End of period	<u>12,105,378</u>	<u>6,181,678</u>
Retained earnings at end of period	115,037,534	109,476,543
Total stockholders' equity	<u>\$175,753,092</u>	<u>\$163,588,596</u>

See accompanying notes to consolidated financial statements.

Consolidated Statement of Source and Application of Funds

	Fifty-Two Weeks Ended	
	January 25, 1969	January 27, 1968 (note 1)
Source of funds:		
Net earnings	\$13,173,400	\$ 11,995,466
Depreciation and amortization	10,937,138	9,917,137
Proceeds from common stock issuance	3,651,351	—
Increase in long-term debt	—	56,216,463
Increase in subordinated income notes	31,366,898	27,236,100
Increase in minority interest in consolidated subsidiaries	—	6,256,993
	<u>\$59,128,787</u>	<u>\$111,622,159</u>
Application of funds:		
Cash dividends	\$ 7,612,409	\$ 7,407,018
Increase in working capital	6,907,123	66,420,275
Additions to fixed assets, net of disposals	12,916,721	34,065,720
Increase in investments	3,711,120	2,798,349
Debt discount, excluding fair value of warrants issued on sale of subordinated income notes credited to paid-in capital, \$3,084,601	2,303,271	—
Reduction of long-term debt	25,464,462	—
Other—net	213,681	930,797
	<u>\$59,128,787</u>	<u>\$111,622,159</u>

See accompanying notes to consolidated financial statements.

Accountants' Report

Peat, Marwick, Mitchell & Co.
1800 Midwest Plaza Building
Minneapolis, Minnesota, 55402

The Board of Directors and Stockholders
Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheet of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 25, 1969 and the related statements of earnings and retained earnings, stockholders' equity and the statement of source and application of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Gamble-Skogmo, Inc. and con-

solidated subsidiaries at January 25, 1969 and the results of their operations for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying statement of source and application of funds for the fifty-two weeks ended January 25, 1969 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

March 21, 1969

Notes to Consolidated Financial Statements

January 25, 1969

(1) Principles of Consolidation

The consolidated financial statements include the accounts of Gamble-Skogmo, Inc. and all subsidiaries except certain variety store subsidiaries (including twenty-three acquired in April, 1968 in exchange for 14,700 shares of Gamble common stock) and six other subsidiaries, including a wholly-owned life insurance subsidiary, all of which, when considered in the aggregate, do not constitute a significant subsidiary. The investments in unconsolidated subsidiaries are carried substantially at underlying equity values. Earnings (losses) of these subsidiaries, included in other income, were \$880,971 and \$(29,379) for 1969 and 1968 respectively.

During April, 1968, the company purchased for cash 16.01 % of the outstanding capital stock of J. M. McDonald Co. On July 29, 1968, McDonald was merged into Gamble by means of an exchange of .8 of one share of Gamble common stock for each share of the remaining 83.99 % of the capital stock of J. M. McDonald Co. The accompanying financial statements have been restated to account for the 83.99 % interest on a pooling of interests basis.

Provision has been made for loss on conversion of the accounts of Canadian subsidiaries to U.S. dollars.

(2) Receivables

	Operating Companies	Finance Companies	Real Estate Companies	Consolidated
Customer deferred payment accounts	\$ 25,704,658	\$235,617,151	\$ —	\$261,321,809
Other customer accounts	29,781,441	—	—	29,781,441
Miscellaneous	12,782,650	12,449,215	4,975,922	9,730,491
Total accounts receivable	68,268,749	248,066,366	4,975,922	300,833,741
Less allowance for doubtful accounts and estimated collection expenses	15,521,735	3,950,861	—	19,472,596
Net receivables	<u>\$ 52,747,014</u>	<u>\$244,115,505</u>	<u>\$ 4,975,922</u>	<u>\$281,361,145</u>

Instalment accounts receivable balances due more than one year from January 25, 1969 included above have been estimated at approximately \$103,400,000.

(3) Property and Equipment (at cost)

	Operating Companies	Real Estate Companies	Consolidated
Land	\$ 4,853,133	\$ 6,134,582	\$ 10,987,715
Buildings and equipment	99,718,757	39,495,351	139,214,108
	104,571,890	45,629,933	150,201,823
Less allowance for depreciation	50,431,327	10,129,686	60,561,013
	54,140,563	35,500,247	89,640,810
Advertising display plant, less amortization	2,210,679	—	2,210,679
Leasehold improvements, less amortization	6,843,054	27,082	6,870,136
Net property and equipment	<u>\$ 63,194,296</u>	<u>\$35,527,329</u>	<u>\$ 98,721,625</u>

Canadian subsidiaries of Gamble-Skogmo, Inc. and the Eisen Mercantile and Mode O'Day Divisions use the declining balance method of computing depreciation; all other divisions and companies use the straight-line method.

Substantially all the properties of the wholly-owned real estate subsidiaries are pledged as collateral under various long-term debt agreements.

(4) Intangible Assets

The Companies do not intend to amortize the remaining balance of intangible assets arising in connection with the acquisition of subsidiaries since there has been no evidence of impairment of value of the assets and business of such subsidiaries.

(5) Federal Income Taxes

Deferred income taxes classified as current in the accompanying balance sheet result from differences between tax and financial accounting with respect to gross profit on instalment sales. Gross profit deferred for income tax purposes results in Federal operating loss carryovers of approximately \$9,500,000 of which approximately \$7,500,000 expires in 1973 and the

(5) Federal Income Taxes (cont'd)

balance in 1974. Other deferred income taxes are classified as deferred credits as described in note 6 below.

Deferred income taxes included in the provision for income taxes in the accompanying statement of earnings aggregated approximately \$5,600,000 and \$5,000,000 for 1969 and 1968 respectively.

(6) Deferred Credits

Deferred credits are comprised principally of deferred income taxes on undistributed earnings of Canadian subsidiaries and differences between tax and financial accounting for depreciation charges.

Notes to Consolidated Financial Statements continued

(7) Long-term Debt

Senior indebtedness aggregating \$200,064,130 includes \$60,000,000 under revolving credit agreements, 5%, 5 $\frac{3}{4}$ % and 6% sinking fund debentures of \$34,120,000 maturing to 1982, and the balance, \$105,944,130, represents principally unsecured notes maturing to 1997 with interest rates ranging from 4 $\frac{1}{4}$ % to 8 $\frac{3}{4}$ %.

Subordinated notes aggregating \$15,606,000 includes \$11,840,000 of Gamble Alden Finance Company bearing interest at 5 $\frac{1}{4}$ % and 5 $\frac{7}{8}$ % payable in annual instalments through 1985 and the balance, \$3,766,000, represents principally indebtedness of finance subsidiaries maturing to 1983 with interest ranging from 5% to 5 $\frac{3}{8}$ %.

Subordinated income notes of Gamble-Skogmo, Inc., included as capital funds in the accompanying balance sheet, bear interest at 7% and mature to 1984. Subsequent to January 25, 1969, the Company intends to issue \$20,000,000 of subordinated income capital notes maturing in 1986 to 1988 together with warrants to purchase 200,000 shares of common stock at \$36.00 per share.

The Company has borrowed \$60,000,000 at prime interest rates under revolving credit agreements aggregating \$80,000,000. The portion of the aforementioned \$60,000,000 which remains outstanding at February 28, 1970 may be converted into three year term loans. Commitment fees are payable on amounts not borrowed under the agreements. The terms of the \$60,000,000 agreement require maintenance of net current assets (as defined) of \$60,000,000 and equal to or greater than 130% of consolidated current liabilities plus amounts outstanding under revolving credit agreements.

Annual payments of long-term debt during the next five years are as follows: 1970—\$6,264,930; 1971—\$12,679,262; 1972—\$24,008,064; 1973—\$29,649,945; and 1974—\$29,660,936. The foregoing schedule assumes that the \$60,000,000 presently outstanding under the revolving credit agreement will remain outstanding until converted to term loans.

(8) Retirement, Pension and Profit Sharing Plans

Certain subsidiaries and divisions of Gamble-Skogmo, Inc. maintain retirement, pension and profit sharing plans for qualified officers and employees with annual contributions determined by earnings of the companies and divisions and/or compensation of the participants. Costs of the plans charged to income include, as to certain of the pension plans, amortization of prior service cost over periods of 20 to 30 years. The actuarially computed value of vested benefits for all plans at January 25, 1969 do not exceed the total of the pension fund and balance sheet accruals.

(9) Preferred Stock

Each share of \$1.75 preferred stock is convertible into 1.03 shares of common stock until October 31, 1973; 1,037/10,000ths of a share to October 31, 1978 and 8,024/10,000ths of a share to October 31, 1983 on which date conversion rights expire. The stock is redeemable at the option of the Company at \$42.50 per share plus accrued and unpaid dividends during the year ending October 31, 1969 with successive annual reductions of 25¢ per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into one share of common stock until November 30, 1974, 9/10ths of a share to November 30, 1979 and 8/10ths of a share to November 30, 1984 on which date conversion rights expire. The stock is redeemable at the option of the Company after November 30, 1969 at \$35.00 per share plus accrued and unpaid dividends, and in the event of involuntary liquidation at \$40.00 per share. In the opinion of legal counsel the excess of the amount to be paid upon involuntary liquidation over par value, \$47,028,450 at January 25, 1969, does not constitute a restriction of retained earnings. Sinking fund requirements, equal to 5% of shares issued, commence in 1984.

(10) Common Stock

At January 25, 1969, 2,920,025 shares of Gamble-Skogmo, Inc. common stock were reserved as follows:

- (a) 1,958,572 shares for issuance on conversion of preferred stocks.
- (b) Exercise of warrants to purchase:
 - (1) 206,184 shares at \$25.22 issued in connection with the sale of notes originally due on May 1, 1975 but prepaid in 1965. Such warrants expire May 1, 1970.
 - (2) 418,000 shares issued in connection with the sale of subordinated income notes due 1984. Warrants to purchase 138,000 shares are exercisable at \$25.50 and expire July 15, 1976. Warrants to purchase 280,000 shares are exercisable at \$33.00 to July 14, 1976 and at \$40.00 to January 16, 1984 at which date the warrants expire.
- (c) 337,269 shares for issuance under the Company's restricted stock option plan for executives and key employees. At January 27, 1968, options on 181,689 shares were outstanding. During the ensuing year options for 87,500 shares were granted, options for 62,746 shares were exercised and options for 43,943 shares lapsed, leaving options on 162,500 shares at an aggregate option price of \$4,571,250 at January 25, 1969.

The 29,440 shares of Red Owl Stores, Inc. common stock under option at January 25, 1969, under the terms of that Company's employees restricted stock option plan and employees qualified stock option plan have an aggregate option price of \$699,912.

(11) Retained Earnings

Retained earnings at January 25, 1969, include undistributed earnings of subsidiaries, \$79,268,692 of which approximately \$24,700,000 is restricted as to payment of dividends under the terms of various indentures and agreements relating to long-term debt.

(12) Pro Forma Earnings Per Share of Common Stock

Pro forma earnings per share computations are based upon the assumptions that: (1) all of the convertible preferred stock had been converted (with appropriate elimination of preferred dividend requirements), and (2) all of Gamble's options and warrants outstanding had been exercised and the proceeds applied to retire a portion of the outstanding 7% Subordinated Income Notes (with appropriate adjustments to net earnings for interest expense and related Federal income tax).

(13) Contingent Liabilities and Commitments

On March 11, 1969 a United States District judge ruled that the Company omitted material information from a proxy statement and failed to present a fair plan of merger in connection with the 1963 merger with General Outdoor Advertising Co., Inc. No damages were fixed at the time of the ruling. After considering the Company's rights of appeal and reviewing this matter with legal counsel the Company does not expect resultant damages, if any, to materially affect its financial position.

Notes sold to banks under purchase-guaranty agreements are unconditionally guaranteed by Gamble-Skogmo, Inc. The uncollected balance of such notes was \$14,785,768 at January 25, 1969. All payments of principal and interest were on a current basis.

The approximate minimum annual rentals under leases in effect at January 25, 1969, exclusive of leases with wholly-owned real estate subsidiaries, amount to \$19,304,484, which is summarized according to lease expiration periods as follows: fiscal years 1970-1974, \$85,762,460; 1975-1979, \$61,821,863; 1980-1989, \$38,772,025, and subsequently \$24,602,214. These amounts exclude maintenance costs, real estate taxes, insurances, etc. and increased amounts based on percentages of sales which may be payable in some cases.

The Company and its subsidiaries are contingently liable with respect to lease obligations on various stores sold. Such leases currently require minimum annual rentals of approximately \$2,430,844 and expire to 1988.



**Gambles offers a number of different franchises.
Check the ones which offer the greatest interest.**

- | | | |
|---|--|--|
| ☐ Department Store | ☐ Supermarket | ☐ Softlines Store |
| ☐ Ready-to-Wear Shop | ☐ Hardlines Store | ☐ Fabric Shop |
| ☐ Appliance Store | ☐ Discount Store | ☐ Variety Store |
| | ☐ Furniture Store | ☐ Drug Store |

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Do you know someone who should or would like to be in business for himself?

If he can make a modest investment, let Gambles, the world's most versatile franchisor, show him the way to independence and success. Send in the postpaid card at right for complete facts.



Gambles, world's largest franchising organization, serves more than 4,300 outlets from its new home office.

Gambles, 20th in retail sales in the United States, has a franchise family of 3,300 retail outlets in 38 states and in all Canadian provinces in addition to its corporate-owned stores. From its headquarters in Minneapolis, Gambles has helped thousands of people to achieve independence, prestige, happiness and financial independence. Its staff of merchandising experts provides franchise holders with

complete guidance in all phases of operating a successful retail business. The retail value of goods sold in these franchised stores last year is estimated at more than \$350 million. As a pioneer in the development of franchise stores, Gambles is committed to the future of franchising. Gambles now offers qualified individuals a choice of many franchises such as: hardline stores, softline stores, food stores, department stores, furniture stores, appliance stores, variety stores,

fabric shops, drug stores and ready-to-wear shops. Want more facts on franchising, the fastest growing segment of American business? Ask us... we've been franchising for 35 years. Contact: Mr. E. O. Wack, Vice-president for Franchise Operations, Gamble-Skogmo, Inc., Box 458, Minneapolis, Minn. 55440.



GAMBLE-SKOGMO, INC.

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Vice President for Franchise Operations
Gamble-Skogmo, Inc.
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Minneapolis, Minn. 55440

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This is the house that franchising built.

This advertisement, which appeared in the October 28 Wall Street Journal, was one of a series of franchising ads that ran during the year in national periodicals.



Gambles, world's largest franchising organization, serves more than 4,300 outlets from its new home office.

Gambles, 20th in retail sales in the United States, has a franchise family of 3,300 retail outlets in 38 states and in all Canadian provinces in addition to its corporate-owned stores. From its headquarters in Minneapolis, Gambles has helped thousands of people to achieve independence, prestige, happiness and financial independence. Its staff of merchandising experts provides franchise holders with

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Minneapolis, Minnesota 55440

